

STATE OF CONNECTICUT

INSURANCE DEPARTMENT



In the Matter Of:

Application of the National Council on
Compensation Insurance for a Change
in Advisory Pure Premiums and a Change
in Assigned Risk Rates for Workers'
Compensation Insurance

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Docket No. PC 03-110

ORDER

I, Susan F. Cogswell, Insurance Commissioner of the State of Connecticut, do hereby adopt the findings and recommendations of Thomas J. Taggart, Hearing Officer in the captioned matter, TO WIT:

- A. The overall cost level changes for advisory loss costs and assigned risk rates filed by the National Council on Compensation Insurance ("NCCI") are approved as filed.
- B. The assigned risk rates with the exception of the 2.5% profit and contingencies provisions are approved
- C. The change in the United States Harbor Workers' Coverage Percentage applicable only in connection with Basic Manual Rule 3-A-4 is changed from 26% to 13%.
- D. The proposed 25% differential for the Assigned Risk rate level over the voluntary market loss costs is approved.
- E. The proposed Workers Compensation Commission industrial classification assessment fund rate of 1.5% and "F" industrial classification assessment fund rate of 5.7% for voluntary market and assigned risk market insurers, for policies effective on or after January 1, 2004, are approved.
- F. For filings received prior to January 1, 2004, the thirty (30) day advance filing set forth in Connecticut General Statute §38a-676(b) is waived pursuant to that section to allow for the adoption of the advisory pure premium change effective January 1, 2004.

This order is effective from the date of this order.

Dated at Hartford, Connecticut this 21st day of November 2003.


Susan F. Cogswell
Insurance Commissioner

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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MEMORANDUM OF FINDINGS AND RECOMMENDATION

I. INTRODUCTION

The National Council on Compensation Insurance (NCCI) on September 22, 2003 submitted an Advisory Pure Premium filing and on October 16, 2003 an Assigned Risk Rate filing for workers' compensation insurance pursuant to Conn. Gen. Stat. §38a-665(a). The Insurance Department held a public hearing on Wednesday, November 5, 2003 to consider the filings. In accordance with the authority granted by Conn. Gen. Stat. §38a-16, it was in the public interest to hold a public hearing on these filings to aid in the Department's determination of compliance with standards for the making and use of rates contained in Conn. Gen. Stat. §38a-665 and to allow for public comment. Insurance Commissioner Susan F. Cogswell appointed the undersigned to serve as hearing officer in this matter.

NCCI's filings for voluntary market pure premium loss costs and assigned risk plan rates is proposed to be effective January 1, 2004. The filings propose revisions of the current and loss costs and assigned risk rates which were approved effective January 1, 2003. NCCI proposes an overall -3.5% change for pure premium loss costs and an overall -0.5% change in assigned risk rates. Changes to individual classification costs have been limited to 20% plus or minus the industry group change.

II. FINDINGS

After reviewing the exhibits entered into the record of this hearing and the presentations given at the hearing, utilizing the Insurance Department's experience, technical competence and specialized knowledge, the undersigned makes the following findings of fact:

1. The proposed change in Advisory Loss Costs reflects the following pure premium level changes:

Industry Group	Voluntary Market Pure Premium Loss Cost Change (%)
Manufacturing	-3.2
Contracting	-4.9
Office & Clerical	-8.5
Goods & Services	+1.7
Miscellaneous	-6.8
Overall Change	-3.5%

2. The proposed change in Assigned Risk Market Rates reflects the following rate level changes:

Industry Group	Assigned Risk Plan Rate Change (%)
Manufacturing	-0.2
Contracting	-1.9
Office & Clerical	-5.7
Goods & Services	+4.9
Miscellaneous	-3.9
Overall Change	-0.5%

3. The components of the Advisory Loss Costs and Assigned Risk Market Rates changes are comprised of the following elements:

Component	Pure Premium Voluntary Market Change	Assigned Risk Premium Level Change
Experience, Trend and Benefit	-3.6%	-3.6%
Loss Adjustment Expenses	+0.1%	--
Expense Constant change	--	--
Expense Provision change	--	-0.9%
Change from 20% to 25% Flat	--	--
Differential for Assigned Risk	--	+4.2%
Overall Change	-3.5%	-0.5%

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are changing to 2.76% of losses from the current 3.91% of losses. These assessments are passed through to employers by insurance carriers. For the Voluntary Market and the Assigned Risk Market, the assessment rate converted to a percentage of premium is 1.5% of standard premium. The Assessment rate for "F" classifications, which provides for coverage under the United States Longshore and Harbor Workers' Compensation Act and its extensions, is changing from 20.1% to 22.1% of losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 5.7%.
5. The Assigned Risk Market Rate filing proposes a differential to loss costs of the Voluntary Market filing of +25%, in place of the current +20% differential.
6. The Assigned Risk Market Rate filing proposes a 2.5% provision for profit and contingencies.
7. The filing proposes to use essentially the same ratemaking methods used for last year's filing to determine overall change levels and individual classification loss costs and rates. As with previous filings, changes to individual class loss costs are limited to 20% above and below the overall change in loss costs of the industry groups.
8. The proposed Permissible Loss Ratio (PLR) for the Assigned Risk Rate filing is 54.71%.
9. The filing is proposing a 26% increase in the United States Harbor Workers' Coverage Percentage.

III. DISCUSSION

A. Overall Loss Costs and Assigned Risk Rates

Conn. Gen. Stat. §38a-665 establishes the standards, methods and criteria for the making and use of commercial risk workers' compensation insurance rates in Connecticut. Conn. Gen. Stat. §38a-665 provides that no rates shall be excessive or inadequate, nor shall they be unfairly discriminatory. Conn. Gen. Stat. §38a-665(b) provides that consideration shall be given, to the extent possible; to past and prospective loss experience, reasonable margin for profit and contingencies, to past and prospective expenses both countrywide and those specially applicable to this state, to investment income earned or realized both from unearned premium and loss reserve funds, and other relevant factors, including judgment factors.

The overall cost levels are decreasing for both the advisory loss costs and the assigned risk rates. The cost levels for both filings are based on Connecticut loss experience for policy years 2000 and 2001. The NCCI adjusts past losses to current conditions using adjustment methods which make the magnitude of the change very sensitive to their assumptions. Critical assumptions include those for trend, loss development and experience period. The assumptions included in these filings, including the econometric forecast values, were reviewed for reasonableness.

Based on the foregoing, it is recommended that the overall cost level change for advisory loss costs be approved as filed.

B. Assigned Risk Profit and Contingencies

NCCI is proposing a 2.5% provision for profit and contingencies. The filing states that the proposed 2.5% provision is driven by the recent declines in investment yields. The NCCI stated that without 2.5% provision for profit and contingencies the assigned rates would become more competitive with the voluntary market prices and in turn the assigned risk market volume may increase.

Many small employers, especially those in hazardous classifications, have limited access to the competitive voluntary market. These employers have no alternative and must resort to the assigned risk plan in order to comply with their statutory obligations. They are not obtaining coverage from the plan because its rates are competitive. In fact, employers in the assigned risk market already have rates that are affected by the Assigned Risk Differential. Additionally employers with a debit experience modification factor are subject to the Assigned Risk Adjustment Program, which has an additional cost. The 2.5% provision for profit and contingencies increases rates for employers in the assigned risk market. Adding the 2.5% provision would be an undue burden for many employers.

It is recommended that 2.5% provision for profit & contingencies be denied.

C. Assigned Risk Differential

In approving the NCCI rates to be effective January 1, 2003 in docket PC 02-89, the Commissioner approved an Assigned Risk rate level that reflects a +20% differential over voluntary market loss costs that applies to all premium levels. In addition, the Commissioner continued use of the Assigned Risk Adjustment Program (ARAP) which has been in effect since January 1, 1992. ARAP provides an additional cost differential for employers with a debit experience modification factor. NCCI proposes in this filing to increase the Assigned Risk differential from +20% to + 25%.

The Assigned Risk market (premium) share increased from 4.9% in 2001 to 8.5% in 2002. Information submitted by NCCI indicates that historically the experience of the assigned risk market has been poorer than that of the voluntary market. NCCI attributes this to risks in the assigned risk market having poor safety records or engaged in very

hazardous operations. A 25% differential combined with additional premium generated by ARAP (7.01%) will generate an average price differential between the voluntary and assigned risk market of 34%. The indicated pricing differential is 40%. It is in the public interest that the 25% assigned risk differential be approved to make the assigned risk market a more self-funded mechanism, provide an incentive for employers to seek voluntary coverage and to ensure that the assigned risk market will not be competitive with the voluntary market. The loss experience set forth in the filing supports the proposed increase in the differential.

Based on the foregoing, it is recommended that the proposed 25% differential be approved.

D. Workers Compensation Commission Assessment Fund

The Workers' Compensation Commission establishes the amount needed to fund the Commission. The assessment to fund the Workers' Compensation Commission increased from 2.76% of losses from 3.91% . The assessment based on paid losses must be translated to a percent of premium, giving consideration to the expense provision in the rates. For the Voluntary Market and the Assigned Risk Market, the assessment rate converted to a percentage of premium is 1.5% of standard premium.

Based on the foregoing, it is recommended that 1.5% be approved as the assessment fund rate effective January 1, 2004 for voluntary and assigned risk market insurers, for policies effective on or after January 1, 2004.

E. United States Harbor Workers' Coverage Percentage

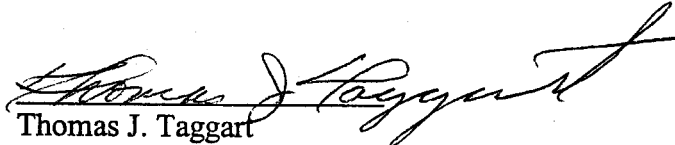
The factor in the 2002 filing was 0% the proposed factor is 26%. The NCCI stated that the federal benefits are over 50 percent greater than the Connecticut benefits. This percentage allows a carrier to charge a higher premium for the portion of payroll subject to United States Harbor Workers' Coverage Act. Per the NCCI the increase is due to the original relativity of state to federal benefits not being updated over many years. NCCI is not using a transition approach for this change. The change in benefits ratio occurred over a number of years and the benefits ratio should not be made in one year. The increase in the United States Harbor Workers' Coverage Percentage should be phased in gradually.

IV. CONCLUSION

On the basis of the foregoing Facts, Discussion and Recommendations, it is recommended that the following orders be entered, to wit:

- A. The overall cost level changes for advisory loss costs and assigned risk rates filed by the National Council on Compensation Insurance ("NCCI") are approved as filed.
- B. Approve the assigned risk rates with the exception of the 2.5% profit and contingencies provisions.
- C. The change in the United States Harbor Workers' Coverage Percentage applicable only in connection with Basic Manual Rule 3-A-4 is changed from 26% to 13%.
- D. The proposed 25% differential for the Assigned Risk rate level over the voluntary market loss costs is approved.
- E. The proposed Workers Compensation Commission industrial classification assessment fund rate of 1.5% and "F" industrial classification assessment fund rate of 5.7% for voluntary market and assigned risk market insurers, for policies effective on or after January 1, 2004, are approved.
- F. For filings received prior to January 1, 2004, the thirty (30) day advance filing set forth in Conn. Gen. Stat. §38a-676(b) is waived pursuant to that section to allow for the adoption of the advisory pure premium change effective January 1, 2004.

Dated at Hartford, Connecticut, the 21th of November, 2003.


Thomas J. Taggart
Hearing Officer